



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

18 FEB 2004

MEMORANDUM FOR ALL MAJCOM SGs

FROM: HQ USAF/SGO
110 Luke Ave, Room 400
Bolling AFB, DC 20032-7050

SUBJECT: FY04 Pharmacy Budget Guidance

As all of you are aware, FY04 promises to be a challenging budget year overall, especially in regard to MTF pharmacy costs. The Air Staff recognizes that even with providing each MAJCOM a 10.1 percent increase in pharmacy dollars above FY03 actual expenditures, successful execution of the pharmacy budget will be challenging. The traditional pharmacy inflation bill payers, expense equipment and facility sustainment, restoration and modernization, have already been heavily decremented. In addition, the AF/SG catastrophic withhold is historically low. So, in large part, all the dollars available to execute the fiscal year have been distributed. Given this backdrop, our purpose here is to provide guidance to assist you in achieving a balanced pharmacy budget. While these suggestions will apply to the majority of our MTFs, it is imperative that commanders, providers, and pharmacists work closely in concert at each facility to examine their own situation and patient needs to develop a strategy that results in successful execution. The following are offered as general guidelines:

a. **Prudent Formulary Management** – Formularies should not be slashed as an initial response to tight funding; however, new additions should be carefully weighed to include expected usage and cost. There may be instances, when permissible, where referral to the Tricare Mail Order Pharmacy (TMOP) or retail network may be appropriate for low-use medications. Additionally, MTFs must fully engage their logistics team to keep abreast of medication price changes and/or the availability of lower-cost generics. For instance, the timely switching of patients to contract-priced loratadine instead of Allegra® or Zyrtec® could save over \$1M at some MTFs. Likewise, changes in the Basic Core Formulary that can result in substantial savings (Levaquin® replaced with Tequin®) need to be implemented without delay. Lastly, commander and SGH involvement to promote proper prescribing must be emphasized. Clearly, many opportunities exist to generate savings, with two prime areas of effort being the COX-2 inhibitors and the ARBs. These newer, and more expensive, medications should only be prescribed when clinical evidence rules out less costly alternatives.

b. **Third Party Collections** – A robust third party collection program, especially in the pharmacy, can provide commanders with significant revenue. All MTFs must ensure their programs are current and working at maximum efficiency. Of note, if third party dollars are used to cover pharmacy expenditures, Air Staff will still use a MAJCOM's FY04 pharmacy budget starting position when calculating that MAJCOM's FY05 pharmacy budget, adjusting for inflation and growth, as applicable.

c. **RMO Involvement** – Even though RMO is generally not a member of the Pharmacy & Therapeutics Committee, this is a good time to include them. RMO representatives should be present at P&T functions and must remain engaged in the pharmacy budget process throughout the year.

d. **Prime Vendor Compliance** – Not only is it imperative that pharmacies and logistics purchase contract items, but both must monitor prime vendor compliance with contract items. In the past, the DoD has lost significant money because the prime vendor did not comply with contract item acquisition. If the prime vendor does not comply, logistics should request credits/adjustments from the prime vendor based on the increased cost of purchasing a non-contract substitute.

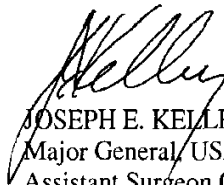
e. **Non-formulary Requests** – According to AFI 44-102, MTF commanders are the final approval authority for all non-formulary drug requests and, as such, can have an impact on which non-formulary medications are purchased by the facility. Commanders must work closely with their SGH to ensure appropriateness and absolute need for all non-formulary medication requests.

f. **Civilian Provider Education** – MTFs need to redouble their efforts to educate civilian providers about our formularies and procedures. This is fertile ground to assist in cost containment. Pharmacies should periodically review the prescribing practices of their largest civilian providers to determine if a letter, phone call, or visit may be appropriate to educate a provider on prescribing less-costly formulary medications. Civilian providers are accustomed to operating within the formulary guidelines of various civilian pharmacy benefit programs, and compliance with our guidelines should be no different.

g. **Pharmacy Inventory** – All pharmacy chiefs should take a close look at their inventory to scrutinize what drugs are on the shelf and how many days' supply of a particular medication sit on the shelf. With prime vendor providing next day delivery to most CONUS MTFs, it is far cheaper to have the prime vendor act as your warehouse instead of the pharmacy acting as the warehouse. For OCONUS MTFs, inventories can be evaluated using MTF-specific delivery timelines. Also, excess inventory and expired meds must be returned in an expeditious manner to guarantee timely, appropriate credit is received.

h. **Keep Excellent Workload Records** – If workload increases are due to an increase in the number of beneficiaries using the MTF pharmacy, a case can be made to request more funds from TMA. This does not mean that more pharmacy dollars will be forthcoming, but at least the argument can be presented that actual usage exceeds what was planned.

Let me repeat that FY04 will be a very tight pharmacy budget year, with the prospects of obtaining increased funds remote. However, with a multidisciplinary team approach, I believe we can execute the mission as instructed. Please ensure wide dissemination of this guidance at both the MAJCOM and MTF level. My POC(s) for this issue are Lt Col John Bullock, AF/SGOC, DSN 297-5343, or e-mail: john.bullock@pentagon.af.mil, and Lt Col David Bobb, AF/SGOS, DSN 754-4119, or e-mail: david.bobb@pentagon.af.mil.



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